

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7575

BILL NUMBER: HB 1523

NOTE PREPARED: Jan 18, 2003

BILL AMENDED:

SUBJECT: Investment Selections.

FIRST AUTHOR: Rep. Dobis

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED:

GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill permits members of the Legislators' Defined Contribution Fund to change investment selections not more than twice each calendar month with three days notice and requires the Public Employees' Retirement Fund (PERF) Board to implement the change: (1) on the first day of the next month, for changes made after April 30, 2003; and (2) by the next business day, for changes made after September 31, 2003. It requires the PERF Board to value each alternative investment program in the Legislators' Defined Contribution Fund at the end of each calendar quarter, including contributions received and benefits paid during the quarter. The bill requires that contributions be credited to the Legislators' Defined Contribution Fund at least quarterly.

This bill also permits members of the Teachers' Retirement Fund (TRF) and PERF to change investment selections not more than twice each calendar month with three days notice and requires the boards of the retirement funds to implement the change: (1) on the first day of the next month, for changes made after June 30, 2004; and (2) by the next business day, for changes made after December 31, 2004.

The bill also requires PERF and TRF to: (1) report to the Pension Management Oversight Commission (PMOC) during the 2003 and 2004 interims on the implementation of the changes; and (2) certify to PMOC if the changes to PERF and TRF cannot be completed by December 31, 2004.

Effective Date: Upon passage; July 1, 2003.

Explanation of State Expenditures: *Summary:* For PERF, the set-up costs are estimated at between \$250,000 and \$500,000, with the annual on-going costs ranging between \$6 M and \$7 M. For the estimates, it is assumed that roughly 60% of the on-going record-keeping costs relate to members' account administration (daily valuation of accounts, processing of contributions, and transfers among accounts). The fund affected for PERF is the non-budget administrative fund. The Chief Investment Officer of PERF has commented that the changes proposed in this bill can't be accomplished by July 1, 2003, but could be accomplished by July 1, 2004. [NOTE: This assumes that both PERF and the Legislators' Defined

Contribution Fund would be permitted to make the change. With fewer than 225 members in the Legislators' Defined Contribution Fund, it may be prohibitively expensive to limit implementation of the provisions of this proposal to the Legislators' Defined Contribution Fund, while including PERF would spread the cost over approximately 150,000 members.]

For the Teachers' Retirement Fund, the estimate ranges between \$1.2 M and \$2 M, or between 10 and 20 basis points, based on the estimated value of the Annuity Savings Account of \$1.3 billion.. The fund affected for TRF is the non-budget administrative fund.

Background Information: A consultant for PERF has estimated the record-keeping task to cost between \$250,000 and \$500,000 to set up, with annual costs ranging between \$6 M and \$7 M. This amounts to between 34 or 39 basis points, based on the estimated value of the Annuity Savings Account of \$1.8 billion. A basis point is a measurement of fluctuation in the current yield equal to 1/100th of 1% on bonds or bills. By way of comparison, the state's Deferred Compensation program pays about 50 basis points, or approximately \$1.5 M, based on a \$500 M account value. It should be noted that the difference in the estimated costs has to do with the size of the funds involved and the specific functions to be performed by the record keeper.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected:

Information Sources: Dr. William Christopher, Director of the Teachers' Retirement Fund, 232-3869; Mercer Consulting, 312-902-7858; Jeff Heinzmann, Legal Counsel, State Auditor's office. 233-1712; Patricia Gerrick, Chief Investment Officer, Public Employees' Retirement Fund, 234-1678.

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